2004 Report on Debt Management
to the
Public Finance Management Board

April 28, 2005

State of Rhode Island and Providence Plantations

OFFICE OF THE GENERAL TREASURER

PAUL J. TAVARES
GENERAL TREASURER

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April 28, 2005

Members of the Rhode Island Public Finance Management Board

Ms. Rosemary Booth Gallogly, RI State Budget Officer
Mr. William Fazioli, City Manager, City of East Providence
The Honorable A. Ralph Mollis, Mayor, Town of North Providence
Mr. Lincoln Mossop, Public Member

Dear Members of the Board:

I hereby submit the 2004 Debt Management Report for the State of Rhode Island and Providence Plantations. This report demonstrates the continued importance of closely monitoring the State's debt position relative to the State's borrowing capacity as part of Rhode Island's efforts to maintain fiscal discipline.

Rhode Island's debt burden peaked in the 1990's and for years the State was ranked in the top three nationally in terms of debt as a percentage of personal income and debt per capita. In recent years, debt management has been a top priority of the State resulting in significant improvement in several long-term debt trends. As recently as 1999, Rhode Island's debt burden was the 5th highest nationally according to Moody's Investors Service. The 2004 State Debt Medians Moody's recently published show that Rhode Island's ranking has dropped to 9th for debt per capita and 12th for debt as a percentage of personal income.

Net tax supported debt totaled $1.33 billion at the close of FY 2004, considerably below the peak level of $1.88 billion reached in FY 1994. Current Budget Office forecasts project the State's debt level to increase to$1.48 billion by FY 2009. While Rhode Island's debt burden has significantly improved, it remains above the national average.

Efforts to increase pay-as-you-go financing of projects, reactivate the sinking fund to defease high-cost debt or to limit, to the extent possible, issuing new debt, and improve bonds proceeds management must be continued.
In order to maintain its current credit ratings, the State must continue to make fiscal responsibility a top priority. A major responsibility of the Treasurer's Office and the PFMB is to monitor State debt ratios and to preserve and enhance Rhode Island's credit

rating and presence in the financial markets. Maintenance of prudent debt ratios and receipt of positive ratings from the credit rating agencies allow Rhode Island to obtain financing at the lowest possible interest rates.

Over the past three years, state rating downgrades nationally have ranged from 10 to 15 depending upon the rating agency. As a rating sector, state credit quality stabilized during 2004 reflecting improved revenues for most states. This past year, two states have experienced upgrades and three experienced downgrades. All three rating agencies have noted that fiscal recovery is underway for the states. However, revenue performance could present a downside risk in the near-term. According to one rating agency, many of the states will emerge from this prolonged period of budget instability with a higher level of leverage, less fiscal flexibility, and a higher tax burden. These issues will be a factor in the credit profile of the states for the foreseeable future. The State's credit rating agencies will continue to scrutinize budgetary decisions during this challenging time.

Finally, completion of this report required the cooperation of Treasury staff, the State Budget Office, and State's financial advisor, First Southwest Company. On behalf of the PFMB, I express my appreciation for the dedicated work of all those who helped compile this year's report.

Sincerely,

Paul J. Tavares
General Treasurer

SECTION 1
2004 Findings

The 2004 Report includes the following:

- Analysis of current State debt position and trends.
- Status report on the implementation of debt management methods and policies.
- Evaluation of projected new debt issuance in compliance with the Public Finance Management Board's ("PFMB") adopted Credit Guidelines.
- Information about outstanding debt issued by State-related agencies and summary information on local government debt position and trends.

The principal findings of this report are summarized below.

Rhode Island's Debt Burden Remains Moderately High

Rhode Island's debt levels, while improved, are relatively high, as evidenced by the following statistics provided by a Moody's Investor Service Special Comment Report, April 2004 and the FY 2006 Capital Budget:

- Rhode Island ranks 12th highest among all states in Net Tax Supported Debt as a percent of personal income, at 4.4% (based on Moody's calculations and 2002 national income levels).
- Rhode Island ranks 9th highest among all states in Net Tax Supported Debt per capita at $1,385 (based on Moody's calculations).
- Net Tax Supported Debt declined annually by 2.8% from FY00 - FY04. Personal income growth for the same period was 3.4%.
- In FY04 the general obligation debt increased at a rate of 5.5% over FY03. From FY00 - FY04 general obligation debt decreased slightly at a rate of 2.8%, compared to a 10.6% annual increase from FY92 - FY96.

Net Tax-Supported Debt declined over the last four years by $202 million, from $1.54 billion at FYE00 to $1.33 billion at FYE04. Current tax-supported debt of $1.33 billion represents an increase of 4.2% from $1.28 billion at FYE03. Rhode Island's Tax-Supported Debt peaked at FYE94 at $1.88 billion.

According to the FY 2006 Capital Budget, the State's outstanding Net Tax Supported Debt (includes adjustment for agency payments) is projected to remain level at $1.48 billion for FYE09. This projection assumes the issuance of no new Tax Supported Debt during this period other than as projected in the Capital Budget.

The FY06 Capital Budget indicates that State general obligation debt will increase at a compound annual growth rate of 2.9% from $788.0 million at FYE05 to $910.7 million at FYE09. During the same period, it is estimated that capital leases will decrease by $49.4 million (-4.6% CAGR), along with declines in other categories of tax-supported debt, such as the Refunding Bond Authority, Narragansett Bay Commission and Rhode Island Housing and Mortgage Finance Corporation.

While its successful efforts to improve its debt position continue to be recognized by the municipal credit rating agencies, the State must continue to protect relative debt levels from rising. Protecting the gains made in debt reduction is critical and important to preserving flexibility.

PFMB's Credit Guidelines and Debt Ratio Targets

In recognition of Rhode Island's high debt burden, the PFMB adopted Credit Guidelines recommended in the 1997 report for use in evaluating certain elements of the State's debt. The original Credit Guidelines were adopted after extensive research on State debt trends and a comparative analysis of certain "peer" states with demographic, geographic, and financial characteristics similar to Rhode Island. The Credit Guidelines were intended to be restrictive enough to be relevant in managing debt levels, but flexible enough to allow for the funding of critical infrastructure needs. However, in light of the State's already high debt burden at the time of adoption, the Credit Guidelines did not necessarily represent an "ideal" level of State debt.

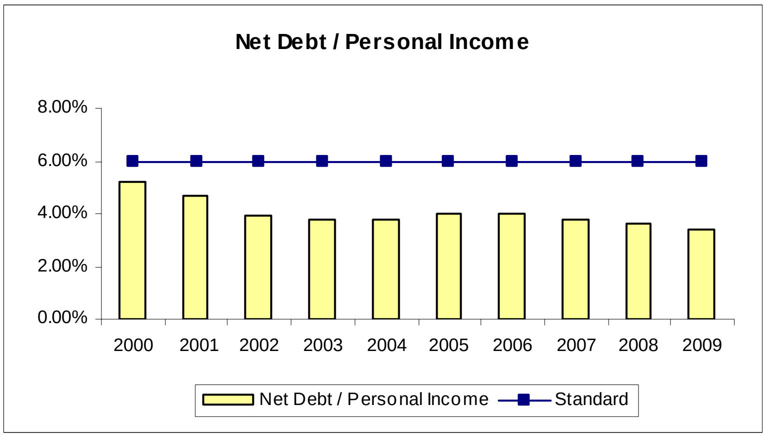
In line with its goal of trending toward more conservative levels of debt, in June 2000, the PFMB approved the revisions to the Tax Supported Debt to Personal Income target debt ratios recommended in the 1999 Report on Debt Management. Approved guidelines are as follows:

- ***Credit Guideline 1:*** Tax Supported Debt to not exceed the target range of 5% to 6.0% of personal income, and annual debt service for Tax Supported Debt to not exceed 7.5% of General Revenues. It is anticipated that fluctuation of this ratio over the long-term will be affected by both variations in personal income levels and debt issuance. The target ranges will continue to be reviewed on an annual basis with consideration given to trends in the State's debt level and upcoming infrastructure projects.

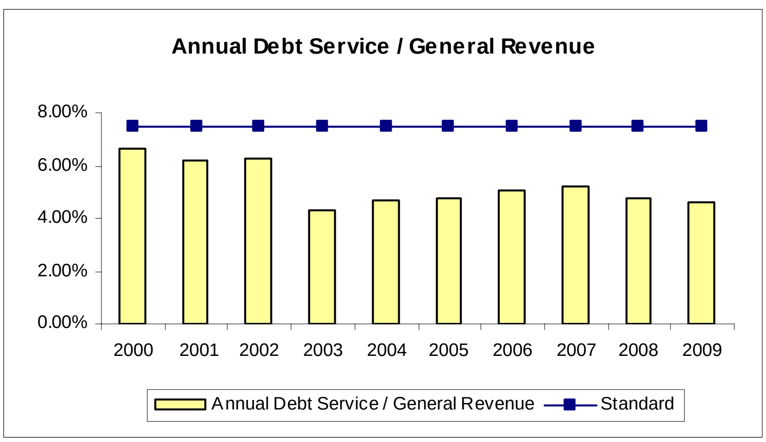
- ***Credit Guideline 2:*** The Board should monitor the total amount of Tax Supported Debt, State Supported Revenue Debt, and Agency Revenue Debt in relation to the State's personal income.

- ***Credit Guideline 3:*** The Credit Guidelines may be exceeded temporarily under certain extraordinary conditions. If a Credit Guideline is exceeded due to economic or financial circumstances, the Board should request that the Governor and the Legislature recommend a plan to return debt levels to the Guidelines within five years.

The debt projections contained in this report indicate compliance with the Credit Guidelines relating to Net Debt to Personal Income, as the ratio will decline from 4.0% at FYE05 to 3.4% at FYE09. From FY00 to FY04, Personal Income grew at a rate of 3.4%, while Net Tax-Supported Debt decreased by 2.8%. The combination of positive Personal Income growth and debt reduction resulted in positive improvement in the Net Debt to Personal Income ratio from 5.2% at FYE00 to 3.8% at FYE04.



Annual Debt Service as a percentage of revenues improved from 6.6% in FY00 to 4.7% in FY04. Projections from FY05 to FY09 indicate continued compliance with the PFMB's guidelines as FY09 debt service to revenues ratio remains below the 7.5% target at 4.6%.

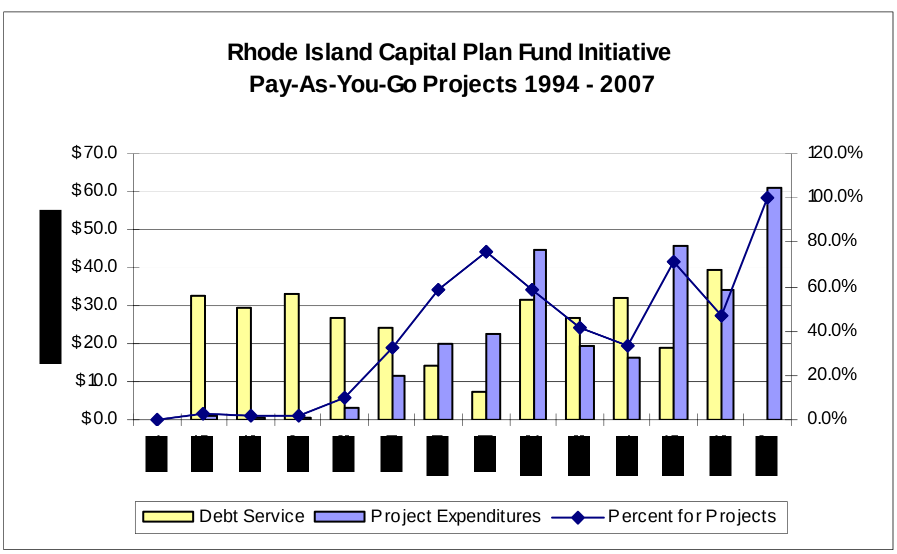


Positive Steps in Debt Administration

Management of the State's debt load is fundamental to debt administration. The State's debt load has a negative impact on the flexibility of the operating budget and limits the State's ability to meet unanticipated capital financing and economic development needs. Rhode Island has made significant improvements to its debt planning and administration in recent years, beginning with the implementation of a formal capital budgeting process and the adoption of the Public Corporation Debt Management Act in 1994 (§RIGL 35-18). Listed below are several initiatives related to debt administration undertaken by the State in recent years.

1. **Pay-As-You-Go Capital Financing.** During a period of sustained economic expansion from 1998 – 2001, along with improved cash management, the State was able to forego cash flow borrowing, a positive trend in the State's debt management. However, the recent economic downturn compelled the State to borrow on a short-term basis in March 2002, November 2003 and December 2003. Greater financial flexibility during periods of economic expansion have enabled the State to increase the proportion of pay-as-you-go capital spending, which includes using both gas tax funds and funds dedicated to the Rhode Island Capital Fund.

   Included in the governor's recommended FY06 Budget was a $34.2 million appropriation ($45.8 million in FY05 which includes funding reappropriations from FY04) for pay-as-you-go capital financing through the Rhode Island Capital Plan Fund. Funds may be used to pay for debt service or project expenditures. While over 95% of Capital Plan Fund resources had been used for debt service, it is contemplated that an increasing proportion of the Fund will be used to pay for capital projects. According to the FY06 Capital Budget, 100.0% of the Fund's resources will be used for capital asset protection projects in FY07 up from 46.5% in FY06. Given budgetary concerns, the State is currently not in a position to maximize pay-as-you-go capital financing. However, it is recommended that the State once again emphasize pay-as-you-go capital spending when the economic climate improves.



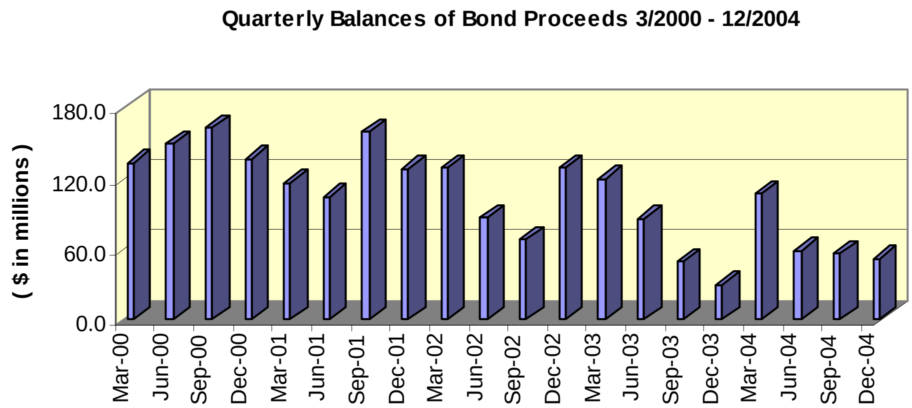
2. **Sinking Fund Commission.** During the 1998 legislative session, the Sinking Fund Commission was reconstituted and given the responsibility of overseeing a program of debt reduction that would be the result of the increased allocation of current revenues to defease or prepay debt. The goal of the Sinking Fund Commission is to reduce debt levels with an increasing appropriation of savings and other revenues to prepay additional debt. In the FY 2005 capital budget, the modifications recommended by the Governor increase General Fund resources and reduce Sinking Fund resources by (1) bond earnings of $4.0 million in FY 2005, (2) proceeds from the annual lease of the former DEPCO property, ($0.2 million) and (3) proceeds from DEPCO ($.42 million).

3. **Bond Proceeds Management.** The State continues to monitor the issue of unexpended balances of general obligation bond proceeds. Past reports have noted this as an issue of concern. Unexpended proceeds have declined from a peak of $167.9 million in 28 accounts at September 30, 1999 to $51.8 million in 25 accounts as of December 31, 2004. From FY98 – FY00, a total of eleven bond proceeds accounts were closed. Eleven additional accounts were closed from FY01 – FY04.

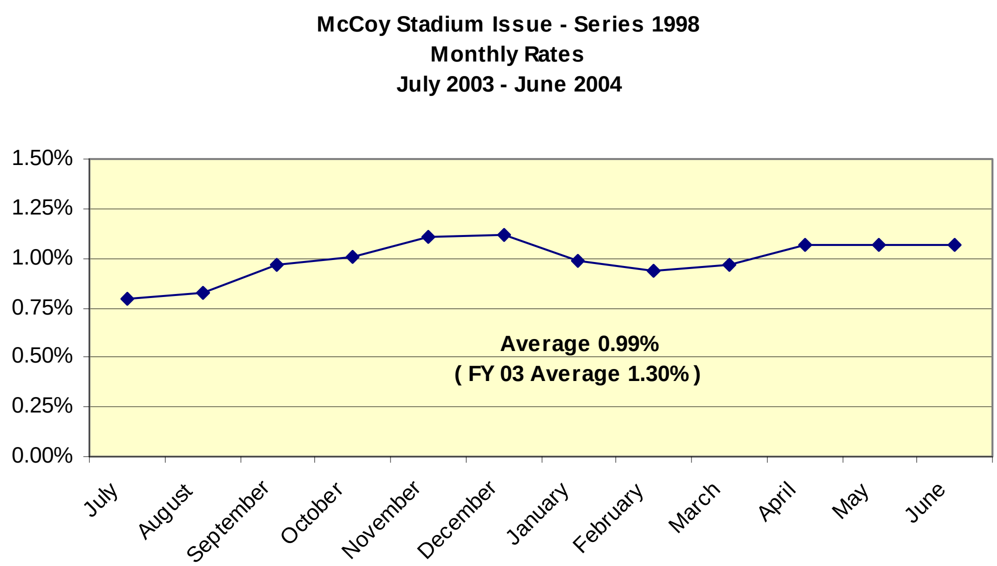
Invested Bond Proceeds By Fund
December 31, 2004

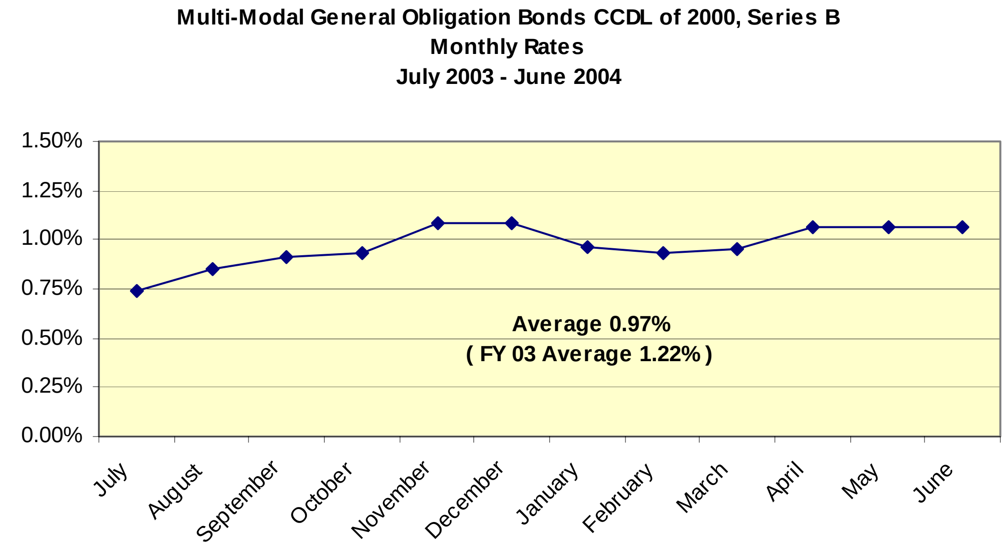
Fund	Amount
Clean Water 1993 Series A	$15,718.10
Clean Water CCDL 1998 Series B	696,112.51
Clean Water 1996 Series A	259,360.65
Clean Water CCDL 1994 Series A	166,583.71
Capital Development Loan 1997 Series A	49,955.73
Clean Water CCDL 2002 Series B	369,847.81
Clean Water CCDL 2004 Series A	719,943.67
Capital Development Loan 1997 Series A	63,109.22
Pollution Control 1994 Series A	6,345.68
CCDL 1999 Series A	374,701.01
Pollution Control 2002 Series B	45,418.15
Pollution Control 2004 Series A	1,240,146.79
G.O. Note 1991 Series B	3,789.42
Bond CCDL 1993 Series A	468,536.57
Bond CCDL 1994 Series A	990,849.95
Bond CCDL 1996 Series A	1,668,628.01
Capital Development Loan 1997 Series A	991,959.99
CCDL 1998 Series B	2,571,015.34
CCDL 1999 Series A	1,623,268.91
Multi-Modal 1999 Series B	3,171.42
Bond Capital CCDL 2000 Series A	4,591,419.28
Multi-Modal 2000 Series B	2,816.03
G.O. CCDL 2001	683,010.57
CCDL 2002 Series B	4,374,093.89
CCDL 2004 Series A	29,819,273.95
	$51,799,076.36

As shown in the chart below, there is a cyclical peak at the end of the second or third quarter, which is indicative of the traditional timing of bond issuance.



4. **Variable Rate Debt Obligations Issued.** The State has issued a total of $100.3 million of multi-modal variable rate general obligations bonds: $36.5 million in July 1998, $32.4 million in September 1999 and $31.4 million in July 2000. In addition, the State was also involved in a variable rate financing for McCoy Stadium that was issued by the Economic Development Corp in July 1998. These floating rate structures offered (1) low initial interest rates, (2) principal structuring flexibility, including prepayment without penalty, and (3) the ability to convert to a fixed rate on one month's notice improves the match of State assets and liabilities and a lower overall cost of capital for the State. The 1998 and 1999 variable rate bonds were refunded with fixed rate bonds in February 2001 as part of a $118.9 million refunding.





Rhode Island Convention Center Authority also has a series of variable rate debt outstanding in the amount of $101,315,000. The Convention Center Authority's variable rate series is swapped to a fixed rate through May, 2006 but is then subject to an option through which it would revert to all variable. Therefore, it is included in the variable portion of the State's tax supported debt. The General Treasurer and the State Budget Office have implemented a policy which restricts the total amount of variable rate exposure to 10% of net tax supported debt outstanding. The amount of variable rate debt outstanding as of June 30,2004, including the Convention Center Authority series was slightly below 10%.

In the 2001 session of the RI General Assembly, the Legislature approved a bill proposed by the Treasurer's office to permit the State to enter into interest rate swap agreements with the goal of reducing borrowing costs. This effectively permits the State to convert a fixed rate obligation to a variable rate obligation or vice-versa. The fiscal impact of future transactions is not possible to quantify since any benefit derived from the use of variable rate debt and related interest rate swaps is extremely dependent upon market conditions, the extent to which the investment vehicle is utilized and the specifics of the individual transaction. Market conditions have, from time to time, resulted in the fixed rates achieved synthetically through swaps being as much as 50 basis points below traditional fixed rate debt. The State can only enter into such transactions when there are demonstrated savings.

5. **Municipal Debt Report.** The PFMB published its initial Local Debt Study for cities and towns in 1998. This report demonstrated that the State's debt load can, in part, be attributed to governmental functions assumed at the state level that in other states are assumed at the local or county level. Examples of this include the State's convention center and correctional facilities. This argument implies that Rhode Island's local governments are relieved of a relatively heavy debt burden. Based on the municipal debt report, this is true for the majority of Rhode Island cities and towns. The report showed that, on average, Rhode Island's city and town debt ratios were approximately half of the Standard and Poor's "moderate" benchmark of cities and towns of comparable size in other states, which partially explains the State's high debt ratios. The PFMB publishes the Municipal Debt Report biannually and is expected to publish the next local debt study in the third quarter of 2005.

SECTION 2

Rhode Island State Debt

Table 2-1 below is a summary detail statement of outstanding State debt, with a brief glossary of terms describing each category of debt following.

Table 2-1 Rhode Island Debt Statement (as of June 30, 2004, dollars in millions, principal amount)			
	6/30/2002	**6/30/2003**	**6/30/2004**
Tax Supported Debt			
General Obligation Bonds	$ 683.0	$ 722.9	$ 762.6
Capital Leases	103.9	100.5	92.4
Convention Center Authority	319.4	310.0	302.3
Economic Development Corporation	93.2	91.1	136.3
Narragansett Bay Commission Bonds	15.0	13.1	11.3
R.I.H.M.F.C. Neighborhood Opportunities Housing Program	12.6	12.6	12.6
Refunding Bond Authority	133.1	100.7	84.7
Gross Tax Supported Debt	$ 1,360.2	$ 1,350.9	$ 1,402.2
Agency Payments	(72.6)	(70.0)	(67.4)
Subtotal Net Tax Supported Debt	**$ 1,287.6**	**$ 1,280.9**	**$ 1,334.8**
State Supported Revenue Debt			
Blackstone Valley Commission	$ 9.9	$ 8.7	$ 7.6
Narragansett Bay Commission	5.1	4.4	3.6
EDC - Collaborative	25.0	25.0	25.0
EDC - Providence Place Mall	40.8	39.3	38.2
EDC - URI Power Plant	15.3	14.7	14.1
Housing and Mortgage Finance Corporation	195.4	209.9	260.5
Industrial Recreational Building Authority - Insured			
Industrial Facilities Corporation	18.5	17.2	27.1
Other	2.4	-	-
Subtotal State Supported Revenue Debt	**$ 312.4**	**$ 319.2**	**$ 376.1**
Agency Revenue Debt			
Airport Corporation	$ 209.0	$ 205.2	$ 199.9
Economic Development Corporation	62.4	60.4	41.2
EDC - Fidelity Building II	10.0	10.0	10.0
EDC - Fleet Bank	7.3	7.2	7.0
EDC - GARVEE Bonds, Federally Funded	-	-	216.8
Housing and Mortgage Finance Corporation	5.0	5.0	5.0
Narragansett Bay Commission	74.8	136.6	186.2
Resource Recovery Corporation	19.5	19.0	18.3
State University and Colleges	113.5	112.5	113.6
Turnpike and Bridge Authority	37.2	35.6	33.6
Water Resources Board	8.2	18.9	10.5
Subtotal Agency Revenue Debt	**$ 546.9**	**$ 610.4**	**$ 842.1**
Conduit Debt			
Clean Water Finance Agency	$ 203.1	$ 286.9	$ 411.7
Health and Educational Building Corporation	1,067.9	1,192.2	1,492.5
Housing and Mortgage Finance Corporation	1,369.1	1,348.7	1,115.5
Industrial Facilities Corporation	101.2	67.4	86.0
Student Loan Authority	782.4	883.6	806.2
Water Resources Board	7.1	6.3	5.6
Subtotal Conduit Debt	**$ 3,530.8**	**$ 3,785.1**	**$ 3,917.5**
Total State Related Debt	**$ 5,677.7**	**$ 5,995.6**	**$ 6,470.5**
Sources: FY 06 Capital Budget and Treasury Survey of R. I. Quasi-Public Corporations.			

Explanation of Categories of Debt

Below is a definition of the categories of debt, which are used throughout this report and reflected in Table 2-1 on the previous page. These categories are listed in declining relationship to the State's general credit. To the extent possible, the categories are consistent with the method credit analysts use in reviewing a state's debt levels. Credit analysts are the professionals who assign credit ratings and recommend and evaluate debt as investments for investors in tax exempt bonds.

Tax Supported Debt

Tax Supported Debt is payable from or secured by general taxes and revenues of the State or by specific State collected taxes that are pledged to pay a particular debt. Because of the claim this debt has on the State's credit, this is the most relevant debt figure to State taxpayers.

State Supported Revenue Debt

State Supported Revenue Debt is payable from specified revenues pledged for debt service which are not general taxes and revenues of the State. However, the State provides additional credit support to repay this debt if the pledged revenues are insufficient to meet scheduled debt service requirements. Because of the contingent nature of the State Credit Support, this figure is somewhat less important than Tax Supported Debt. This type of debt includes "moral obligation" debt.

Agency Revenue Debt

Agency Revenue Debt is similar to State Supported Revenue Debt, except that no State credit support is legally pledged for repayment and the assets financed are State owned enterprises that are intended to be supported by internally generated fees and revenues. While this type of debt is not supported by State taxes, the agencies and public corporations responsible for this debt may also have financed some assets with State general obligation debt, thereby indirectly linking such debt to the State.

Conduit Debt

Conduit Debt is issued by a state agency or public corporation on behalf of borrowers which include businesses, health care institutions, private higher education institutions, local governments, and qualified individuals (loans for higher education and housing purposes). No State credit support is provided.

SECTION 3

Classification and Analysis of State Debt

The Debt Issuers

The electorate of the State and the General Assembly authorize certain State officers, State agencies, and municipalities to issue debt for various purposes. This report uses the terms "issuers" and "debt issuing agencies" to describe any State office, department, corporation, or agency which issues bonds, notes, or other securities. These issuers finance construction and other capital improvements to State buildings; State highways; local water, sewer, and other capital improvement projects; loans to businesses; health care organizations; loans to low and moderate income persons for single family housing and higher education; loans to developers for multifamily housing; and private and public university buildings.

There are currently 16 different State debt issuers that have been authorized to sell various types of obligations. Table 3-1 presents a list of each issuer and the type of debt each has issued.

Table 3-1
State Debt Issuing Agencies

Issuer	Tax Supported Debt	Revenue Debt (State Credit Support)	Agency Revenue Debt	Conduit Debt
Airport Corporation*			X	
Clean Water Finance Agency				X
Convention Center Authority	X			
Economic Development Corporation	X	X	X	
Health and Education Building Corp.				X
Housing, Mortgage, and Finance Corp.	X	X	X	X
Industrial Facilities Corp.		X		X
Narragansett Bay Commission*	X	X	X	
Refunding Bond Authority	X			
Resource Recovery Corporation			X	
State of Rhode Island-Capital Leases	X			
State of Rhode Island-GO Bonds	X			
State Universities and Colleges			X	
Student Loan Authority				X
Turnpike and Bridge Authority			X	
Water Resources Board			X	X

* The State has outstanding general obligation bonds issued on behalf of these agencies.

The types of debt issued by these entities have been organized in four general categories: Tax Supported Debt, State Supported Revenue Debt, Agency Revenue Debt, and Conduit Debt. The total amount of debt for these four classes of State debt outstanding as of June 30, 2004 is summarized in Table 3-2.

Table 3-2
Outstanding State Debt
as of June 30, 2004
(dollars in millions, principal amount)

Tax Supported Debt	$1,334.8
State Supported Revenue Debt	376.1
Agency Revenue Debt	842.1
Conduit Debt	3,917.5
Total	**$6,470.5**

Source: FY 06 Capital Budget and Treasury Survey of R.I. Quasi-Public Corporations.
Note: Due to data collection lags, does not include local government debt, which totaled approximately $1,365.4 million at June 30, 2003, up from $1,211.8 million at June 30, 2002.

How the Debt Issuers Are Related and Evaluated

All debt issued by the State and its agencies is analyzed for institutional investors, individual investors, and providers of credit guarantees including insurance companies and commercial banks. Credit analysts include the major credit rating services (Moody's Investors Service, Standard & Poor's, and Fitch Ratings); municipal bond insurance companies which guarantee many bonds issued by the State (AMBAC, FSA, MBIA, FGIC, and others); broker-dealers and dealer banks which underwrite State bonds; and institutional investors which purchase State bonds (mutual funds, casualty insurance companies, and investment advisors).

One of the factors these analysts use to evaluate debt issued by state agencies is the degree to which the State's general taxes and revenues may be called upon to pay or support the payment of these debts. Tax Supported Debt, for example, is paid directly by State collected taxes and revenues, while Conduit Debt is solely an obligation of a borrower that is not a State agency. Investors do not expect the State to be directly or indirectly responsible for payment of debt service for Conduit Debt.

Each class of debt is defined in Section 2 on page 9. The following discussion presents historical information about the level of such debt.

Tax Supported Debt: FY00 to FY04

Tax Supported Debt includes general obligation bonds, bonds payable from leases which are subject to appropriation from the State's general fund. Credit ratings for this debt are largely dependent on the general fiscal condition of the State, amount of Tax Supported Debt currently outstanding, the characteristics of the specific tax that is pledged for repayment, and the economic conditions of the State.

Table 3-3 presents the amounts and types of Tax Supported Debt for the five years ending June 30, 2004 with resulting debt ratios. For FY04, the State's Debt to Personal Income ratio of 3.8% and Debt Service to Revenue ratio of 4.7% were in compliance with the Credit Guideline maximums of 6.0% and 7.5%, respectively. A detailed statement of Outstanding Tax Supported Debt (actual) as of June 30, 2004 is presented in Appendix A.

Table 3-3
Tax Supported Debt: Fiscal Years 2000 - 2004
(dollars in millions, principal amount)

Fiscal Years	2000	2001	2002	2003	2004	CAGR FY 00 - 04
General Obligation Bonds	$ 881.1	$ 853.8	$ 683.0	$ 722.9	$ 762.6	-2.8%
Capital Leases	91.7	116.9	103.9	100.5	92.4	0.2%
Convention Center Authority	322.9	315.8	319.4	310.0	302.3	-1.3%
Depositors Economic Protection Corp.	41.7	-	-	-	-	-
Economic Development Corp.	87.1	85.2	93.2	91.1	136.3	9.4%
Narragansett Bay Commission Bonds	19.9	18.5	15.0	13.1	11.3	-10.7%
R.I.H.M.F.C.	-	-	12.6	12.6	12.6	-
Refunding Bond Authority (1)	161.2	147.4	133.1	100.7	84.7	-12.1%
Gross Tax Supported Debt	$ 1,605.6	$ 1,537.6	$ 1,360.2	$ 1,350.9	$ 1,402.2	-2.7%
Agency Payments	(68.8)	(66.7)	(72.6)	(70.0)	(67.4)	-0.4%
Net Tax Supported Debt	**$ 1,536.8**	**$ 1,470.9**	**$ 1,287.6**	**$ 1,280.9**	**$ 1,334.8**	**-2.8%**
Annual Net Tax Supported Debt Service (2)	$ 153.4	$ 162.9	$ 167.6	$ 122.0	$ 136.5	-2.3%
Debt Ratios: (3)						
Annual Debt Service/Revenues (7.5%)	6.6%	6.2%	6.3%	4.3%	4.7%	-6.8%
Net Debt/Personal Income (5% - 6%)	5.2%	4.7%	3.9%	3.8%	3.8%	-6.0%
Net Debt/Capita	$ 1,462.7	$ 1,389.0	$ 1,205.3	$ 1,190.2	$ 1,240.3	-3.2%
Assumptions:						
Revenues (2), (4)	$ 2,322.4	$ 2,642.1	$ 2,676.8	$ 2,846.5	$ 2,935.2	4.8%
Personal Income	$ 29,714.8	$ 31,527.3	$ 32,767.7	$ 33,747.4	$ 35,181.7	3.4%
Population (5)	1,050,664	1,058,992	1,068,326	1,076,164	1,076,164	0.5%

CAGR = Compound Annual Growth Rate
Source: FY 06 Capital Budget

(1) The Public Building Authority was merged into the Refunding Bond Authority on 7/21/97. Balances and CAGR are for merged entity FY 00 - FY 04.
(2) FY 01 - FY 05 Capital Budgets.
(3) Based on Net Tax Supported Debt which includes agency payments.
(4) Revenues include actual general revenues plus dedicated gas tax transfers.
(5) Population estimates are from the U.S. Census Bureau, September 2004.

From FY00 to FY04 total Net Tax Supported Debt decreased by 2.8%, the result of the elimination of DEPCO debt, a decline in General Obligation debt, Refunding Bond Authority debt, Narragansett Bay Commission debt and Convention Center Authority debt. These reductions, were partially offset by a 9.4% increase in Economic Development Corporation debt as a result of a $47.4 million transportation (motor fuel) issuance. State personal income and revenues grew at an annual compound rate of 3.4% and 4.8%, respectively over the same period, comparable to the annual compound rates of 3.8% and 5.9% from FY99 – FY03.

The Governor, with approval by the General Assembly, also authorizes certain departments to finance the acquisition of equipment and the acquisition and improvement of buildings by using capital leases. Capital leases have been used to finance various projects such as the Attorney General's office, the ACI Intake Center, the office complex at Howard Center for the Department of Labor and Training and power generation facilities at the State Colleges and Universities. These capital leases are considered Tax Supported Debt by bond credit analysts.

The Economic Development Corporation issues debt that will be paid from State taxes and revenues which represents 10.2% of Tax Supported Debt. This debt contains unusual credit features, which obligate the State to pay debt service under certain expected circumstances. Two such issues (Fidelity and Fleet leases) carry a moral obligation pledge, which requires the State to appropriate funds in the event that certain job hiring targets are met. In the event performance targets are not met, the State is not obligated to pay under the agreements. The purpose of this type of performance-based credit structure is to foster economic development, and to justify such appropriations by the generation of incremental income tax receipts. For this reason, issuance must be carefully monitored and measured for budget purposes.

Projected Tax Supported Debt: FY05 to FY09

Using figures provided by the State Budget Office, an estimate of the Tax Supported Debt for the FY05 - FY09 period has been developed along with a forecast of certain debt ratios.

Table 3-4
Tax Supported Debt: Fiscal Years 2005 - 2009
(dollars in millions, principal amount)

Fiscal Years	2005	2006	2007	2008	2009	CAGR FY 05 - 09
General Obligation Bonds	$ 788.0	$ 838.5	$ 860.1	$ 888.1	$ 910.7	2.9%
Capital Leases	236.2	228.1	215.0	201.2	186.8	-4.6%
Convention Center Authority	292.9	283.1	272.8	262.1	250.8	-3.1%
Economic Development Corp.	128.3	161.8	154.4	174.1	165.4	5.2%
Narragansett Bay Commission Bonds	9.3	6.0	2.6	1.8	1.3	-32.5%
R.I.H.M.F.C.	13.1	16.3	13.4	10.5	7.4	-10.8%
Refunding Bond Authority	74.6	60.3	42.7	24.2	6.0	-39.6%
Gross Tax Supported Debt	$ 1,542.4	$ 1,594.1	$ 1,561.0	$ 1,562.0	$ 1,528.4	-0.2%
Agency Payments	(64.2)	(59.2)	(53.9)	(51.2)	(48.3)	-5.5%
Net Tax Supported Debt	**$ 1,478.2**	**$ 1,534.9**	**$ 1,507.1**	**$ 1,510.8**	**$ 1,480.1**	**0.0%**
Annual Net Tax Supported Debt Service (1)	$ 147.1	$ 164.2	$ 176.6	$ 170.3	$ 173.4	3.3%
Debt Ratios: (2)						
Annual Debt Service/Revenues (7.5%)	4.7%	5.0%	5.2%	4.8%	4.6%	-0.4%
Net Debt/Personal Income (5% - 6%)	4.0%	4.0%	3.8%	3.6%	3.4%	-3.2%
Net Debt/Capita	$ 1,373.6	$ 1,426.3	$ 1,400.4	$ 1,403.9	$ 1,375.3	0.0%
Assumptions:						
Revenues	$ 3,111.4	$ 3,259.6	$ 3,413.1	$ 3,575.2	$ 3,744.3	3.8%
Personal Income	$ 36,694.6	$ 38,199.0	$ 39,765.1	$ 41,435.3	$ 43,154.8	3.3%
Population (3)	1,076,164	1,076,164	1,076,164	1,076,164	1,076,164	0.0%

CAGR = Compound Annual Growth Rate
Source: FY 06 Capital Budget

(1) Projected Net Tax Supported Debt Service.
(2) Based on Net Tax Supported Debt which includes agency payments.
(3) Population estimates are from the U.S. Census Bureau, September 2004.

Gross Tax Supported Debt (excludes adjustments for agency payments) is projected to decline slightly from $1.54 billion at FYE05 to $1.53 billion at FYE09.

Total forecast additions to tax-supported debt is projected to increase by 25.4% from FYE05 – FYE09. According to the FY06 Capital Budget, General Obligation Debt Issues are projected to increase by approximately 37.7% annually from 2005 – 2009. Total Capital Lease issuance is projected to increase by 9.5% on a compound annual growth rate basis.

Table 3-5
Forecast Additions to Tax Supported Debt: Fiscal Years 2005 - 2009
General Obligation Bonds and Capital Leases
(dollars in millions, principal amount)

Fiscal Years	**2005**	**2006**	**2007**	**2008**	**2009**	**CAGR FY 05 - 09**
General Obligation Bonds	$ 76.3	$ 174.0	$ 244.6	$ 312.5	$ 377.8	37.7%
Master Lease for Vehicles / DOT Trucks	10.0	9.7	8.3	6.8	5.2	-12.3%
EDC - Transportation Motor Fuel Bonds	-	42.1	40.7	66.6	64.2	-
Juvenile Training School	55.7	55.7	53.9	52.0	50.0	-2.1%
Traffic Tribunal Court Complex	26.4	26.4	25.5	24.6	23.7	-2.1%
R.I.H.M.F.C. Neighborhood Housing Program	-	5.0	4.1	3.1	2.1	-
Total Capital Leases	$ 92.1	$ 138.9	$ 132.5	$ 153.1	$ 145.2	9.5%
Total	**$ 168.4**	**$ 312.9**	**$ 377.1**	**$ 465.6**	**$ 523.0**	**25.4%**

Sources: FY 06 Capital Budget, Office of the General Treasurer.

State Supported Revenue Debt

State Supported Revenue Debt is payable from specified revenues pledged for debt service which are not general taxes and revenues of the State. The State provides additional credit support to repay this debt only if the pledged revenues are insufficient to meet scheduled debt service payments.

The State provides credit support in a variety of forms. For purposes of this report, State Credit Support is broadly defined to include a contingent commitment to make annual appropriations under a lease, a contingent commitment to seek appropriations to replenish a special debt reserve, direct guarantees of debt payments, commitments to pay all or a portion of debt service under certain conditions, and commitments to provide other payments which indirectly secure or directly pay debt service.

A contingent commitment to seek appropriations to replenish a special debt reserve is known as a "moral obligation" and has special meaning to credit analysts. State laws that authorize moral obligation debt require notification by the Governor to the General Assembly when a deficiency in a special debt service reserve has occurred. The Governor then is required to request an appropriation to replenish the reserve to its required level. Credit analysts view "moral obligation" bonds as a contingent state obligation even though the legislative body is not contractually required to make the requested appropriation.

State Supported Revenue Debt represents a substantial contingent obligation of the State of $376.1 million at June 30, 2004, up from $319.2 million at June 30, 2003. While this type of debt is intended to be paid from dedicated revenues generated from financed projects, the State has provided credit support to additionally secure this debt. Because of the implied financial commitment of State support in the event of any unanticipated revenue shortfall, the level of this debt is an important consideration for the credit ratings of the State's Tax Supported Debt. Table 3-6 presents the amounts and types of State Supported Revenue Debt for the five years ending June 30, 2004.

Table 3-6
State Supported Revenue Debt: Fiscal Years 2000 - 2004
(dollars in millions, principal amount)

Fiscal Years	2000	2001	2002	2003	2004	CAGR FY 00 - 04
Blackstone Valley Commission (1)	$ 12.2	$ 11.5	$ 9.9	$ 8.7	$ 7.6	-9.0%
Narragansett Bay Commission (1)	7.7	7.0	5.1	4.4	3.6	-14.1%
EDC - Collaborative	25.0	25.0	25.0	25.0	25.0	0.0%
EDC - Providence Place Mall	40.8	40.8	40.8	39.3	38.2	-1.3%
EDC - URI Power Plant	16.4	15.9	15.3	14.7	14.1	-3.0%
Housing and Mortgage Finance Corporation	194.5	180.8	195.4	209.9	260.5	6.0%
Industrial Recreational Building Authority - Insured						
Industrial Facilities Corporation	26.9	24.5	18.5	17.2	27.1	0.1%
Other	2.4	2.4	2.4	-	-	-
Total	**$ 325.9**	**$ 307.9**	**$ 312.4**	**$ 319.2**	**$ 376.1**	2.9%

CARG = Compound Annual Growth Rate
Source: Treasury Survey of R.I. Quasi-Public Corporations.

(1) General Obligations guaranteed but supported by agency revenues.

The largest component of State Supported Revenue Debt is the moral obligation debt of the Rhode Island Housing and Mortgage Finance Corporation, which has increased by 33.9% (CAGR of 6.0%) since 2000. When combined with reductions in Blackstone Valley Commission and Narragansett Bay Commission debt, State Supported Revenue Debt increased by an annual compound rate of only 2.9% for the period from FYE00 to FYE04.

The Rhode Island Industrial Facilities Corporation ("RIIFC") issues bonds which are secured by loans and mortgages of private borrowers, but the bonds may be additionally secured by a voter authorized commitment provided by the Industrial-Recreational Building Authority ("IRBA") which is funded by State appropriations. The portion of RIIFC's debt which is guaranteed by IRBA is shown in this category.

The Economic Development Corporation is authorized to secure its revenue bonds with the State moral obligation with the approval of the Governor and as of FYE00, all debt issues previously secured under the traditional moral obligation pledge had been paid off.

Agency Revenue Debt

Agency Revenue Debt is similar to the previous classification, except that the State has not provided any form of credit support and no general taxes or revenues are pledged for payment of these bonds. This type of debt is isolated from the State's general credit, but because the borrowers are agencies or corporations created by the General Assembly, this debt is not as removed as Conduit Debt.

Investors would expect that the State would take no actions which would cause these bond issuers financial harm, and the State has no legal responsibility to prevent financial defaults. However, as a practical matter, the State facilities which are financed in this manner, such as the University of Rhode Island, the Claiborne Pell and Mt. Hope Bridges, and the T.F. Green Airport expansion, are important public facilities, the use of which the State would not likely surrender in the event that the pledged revenues were insufficient to pay debt service. For this reason, this type of debt is important to the State's credit standing.

The State has issued general obligation bonds to finance facilities of several of the agencies shown in Table 3-7. Only the Revenue Debt of these agencies is presented in Table 3-7, and any other debt is presented in the sections relating to Tax Supported Debt. Table 3-7 presents the amounts and types of Agency Revenue Debt for five fiscal years ending June 30, 2004.

Table 3-7
Agency Revenue Debt: Fiscal Years 2000 - 2004
(dollars in millions, principal amount)

Fiscal Years	2000	2001	2002	2003	2004	CAGR FY 00 - 04
Airport Corporation	$ 215.1	$ 212.6	$ 209.0	$ 205.2	$ 199.9	-1.5%
Economic Development Corporation	20.6	58.8	62.4	60.4	41.2	14.9%
EDC - Fidelity Building II	-	-	10.0	10.0	10.0	-
EDC - Fleet Bank	7.4	7.4	7.3	7.2	7.0	-1.1%
EDC - GARVEE Bonds, Federally Funded	-	-	-	-	216.8	-
Housing and Mortgage Finance Corporation	5.0	5.0	5.0	5.0	5.0	0.0%
Narragansett Bay Commission	48.2	53.4	74.8	136.6	186.2	31.0%
Resource Recovery Corporation	5.0	-	19.5	19.0	18.3	29.6%
State University and Colleges	64.2	105.5	113.5	112.5	113.6	12.1%
Turnpike and Bridge Authority	40.3	38.8	37.2	35.6	33.6	-3.6%
Water Resources Board	8.5	7.8	8.2	18.9	10.5	4.3%
Total	**$ 414.3**	**$ 489.3**	**$ 546.9**	**$ 610.4**	**$ 842.1**	**15.2%**
CARG = Compound Annual Growth Rate						

The Narragansett Bay Commission experienced the largest increase of 31.0% due to the combined sewer overflow project. The Resource Recovery Corporation had the second largest increase of 29.6% because of the issuance of bonds in January 2002 to finance a new tipping facility. The third largest increase of 14.9% was from the Economic Development Corporation. Overall, Agency Revenue debt grew at a compound annual rate of 15.2% from FY00 - FY04. Because payment of this category of debt is supported by fees, charges, or other revenues, an increase in this type of debt may be considered as one indicator of economic growth. However, either a stable or growing economy is needed to support such debt.

Conduit Debt

Conduit Debt is issued by a state agency on behalf of borrowers, which include businesses, health care institutions, private higher education institutions, local governments, and qualified individuals (loans for housing and higher education purposes). These borrowers are able to borrow at the favorable tax exempt interest rates under the federal tax laws by having a State agency issue bonds on their behalf.

Conduit Bonds are payable from repayment of loans by the borrowers and are independent of the State's credit. Investors would not expect any assistance by the State in the event the borrower experienced financial difficulties or if the debt were to default. None of the debt presented in Table 3-8 is secured by any form of State Credit Support.

Table 3-8
Conduit Debt: Fiscal Years 2000 - 2004
(dollars in millions, principal amount)

Fiscal Years	2000	2001	2002	2003	2004	CAGR FY 00 - 04
Clean Water Finance Agency	157.4	179.7	203.1	286.9	411.7	21.2%
Health and Educational Building Authority	1,022.2	1,082.9	1,067.9	1,192.2	1,492.5	7.9%
Housing and Mortgage Finance Corporation	$ 1,334.7	$ 1,367.7	$ 1,369.1	$ 1,348.7	$ 1,115.5	-3.5%
Industrial Facilities Corporation	102.8	120.4	101.2	67.4	86.0	-3.5%
Student Loan Authority	623.3	715.6	782.4	883.6	806.2	5.3%
Water Resources Board	9.3	8.8	7.1	6.3	5.6	-9.6%
Total	**$ 3,249.7**	**$ 3,475.1**	**$ 3,530.8**	**$ 3,785.1**	**$ 3,917.5**	**3.8%**

CARG = Compound Annual Growth Rate
Source: Treasury Survey of R.I. Quasi-Public Corporations.

Conduit Debt, which represents the largest category of debt, grew at a compound annual rate of 3.8% from FY00 - FY04. The agencies which experienced the most significant growth in debt were the Clean Water Finance Agency and the Health and Educational Building Authority, with compound annual growth rates reaching 21.2% and 7.9%, respectively. Student Loan Authority's debt levels have also been on the rise, but at a slower rate of 5.3%.

Local Government Debt

Local governments issue various types of debt which may be secured by a general obligation of the local government or may be payable from a specific revenue source.

Table 3-9 presents the amounts of Local Government Debt for the five years ending June 30, 2003. This table does not include the debt of certain regional and municipal authorities including the Bristol County Water Authority, the Foster Glocester Regional School District, Kent County Water Authority, and the Providence Public Building Authority.

Table 3-9
Local Government Debt: Fiscal Years 1999 - 2003
(in millions)

Fiscal Years	1999	2000	2001	2002	2003	CAGR FY 99 - 03
Local Government Debt	$ 1,000.1	$ 1,100.6	$ 1,118.5	$ 1,211.8	$ 1,365.4	6.4%

CARG = Compound Annual Growth Rate
Source: Office of the General Treasurer and the Audited Financial Statements of the 39 Cities and Towns.

Local government debt includes the general obligation bonds, revenue bonds, and capital leases of Rhode Island's 39 local governments. During the five years shown in Table 3-9 this debt grew at an average annual rate of 6.4 %. Local Debt Studies, issued in 1998, 2001 and 2003, indicated that debt levels for Rhode Island cities and towns were relatively low when compared to national indices. Given the inconsistencies among state and local revenue structures, overlapping debt and unavailability of timely data, this report does not draw a comparison of Rhode Island's combined State and local debt with that of other States. The Local Debt Study will be updated in the third quarter of 2005. In light of the availability of published information on cities and towns, the Local Debt Study will continue to be produced on a biennial basis.

SECTION 4
Debt Policies and Practices

Importance of Debt Management

The State of Rhode Island and its local governments use debt to finance capital improvements and to make loans at tax exempt interest rates to various government, nonprofit, and private borrowers for capital investments for economic development and other public purposes. The ability to fund capital investments through borrowing is important because the State and its local governments do not have sufficient cash reserves or dedicated revenue resources necessary to fund these expenditures. Of course, not all capital investments are funded or should be funded with debt. Current revenues and cash reserves also are and should remain as funding sources for capital improvements for the State and its local governments.

Maintaining an ability to borrow, often called "debt capacity," is a critical resource for most states and local governments. Without debt capacity the State may not be able to pay for restoration of aging infrastructure and make new capital investment. Public capital investment attracts private capital to be invested, which creates employment and a high quality of life for the citizens of the State. Capital investment in transportation infrastructure, including highways, airports, and ports, is a basic building block for the State's economy. Other essential capital investments must be continually made for purposes such as water, wastewater, recreation, local schools, and higher education. The State's capital budget lays out future State capital needs. Because of the State's current debt profile, prudent debt management is critical to satisfying these capital investment needs.

Debt Limits and Targets

Setting debt targets is a policy exercise involving balancing the cost of debt against the need for debt financed capital improvements. Many states set limits on debt that is paid from state general taxes and revenues. Maintaining a high credit rating or improving an average rating is a key objective in limiting debt in most states. The PFMB has set debt limits based on personal income levels and debt service as a percentage of General Revenues. However, municipal/public credit ratings are based on not only debt levels, but also financial, economic and management characteristics of the jurisdiction. There are no fixed formulas for the optimal combination of these factors. In reality, some factors, such as the economy or demographics, are beyond the issuer's control. However, because debt issuance can be controlled, most borrowers focus on debt levels as a critical rating factor. The principal benefit of higher credit ratings is that investors are willing to accept lower interest rates on highly rated debt relative to lower rated debt, thereby reducing the State's borrowing costs.

Debt Capacity

For purposes of this analysis, debt capacity is a term used to define how much debt can be issued by the State or an agency of the State, either on an absolute basis or without adverse consequences to its credit rating or the marketability of its debt. Debt capacity is customarily evaluated in view of the income, wealth, or asset base by which the debt is secured or from which it is paid. With the variety of debt types, payment sources and legal means used to secure debt, there is no single measure of debt capacity to which all debt issued by all state agencies would be subject.

In March 2005, Rhode Island made presentations to the State's credit rating agencies. The agencies were provided with an update of the State's budget, economic development initiatives and current debt profile. The ratings were based on the State's economic performance, effective management of the State's financial operations, significant success in reducing the State's debt burden and economic development efforts. Rhode

Island's general obligation bonds are currently rated "Aa3/AA-/AA" by Moody's Investors Service, Standard & Poor's, and Fitch, respectively. It is important to note that the State maintained its ratings level during the period 2001-2004, when many states were downgraded or placed on creditwatch. Table 4-1 presents the credit ratings for all states with general obligation bonds.

While Rhode Island's debt levels are moderately high, they have steadily improved since FY95. Debt projections for FY05 through FY09, as presented in Table 3-4, indicate that Debt to Personal Income will decrease from 4.0% to 3.4% during this period. These projections also show Debt Per Capita remaining level from $1,373.6 to $1,375.3 over the same period.

Because the rating agencies also evaluate economic and demographic factors in their rating analyses, the State's economic and demographic growth relative to other states will be a key factor in future comparisons. Finally, while the State's Debt to Personal Income of 3.8% in FY04 compares favorably to Moody's 2004 Peer Group average of 4.7%, this ratio is high relative to Moody's 2004 median (includes all states) of 2.4%. Likewise, the State's FY04 Debt per Capita of $1,240 compares unfavorably to the current Moody's median at $701, but favorably to the 2004 Peer Group Average of $1,734. Debt levels tend to be relatively higher in Rhode Island's Peer Group states in light of their aging infrastructure and practice of financing projects at the state level rather than at the municipal level. These comparisons indicate that even after projected debt ratio improvements, Rhode Island's debt profile will continue to remain high relative to other states. These projections support Rhode Island's continued discipline in debt management.

Table 4-1
Long Term Credit Ratings
General Obligation Bonds

	Moody's	S & P	Fitch
Alabama	Aa3	AA	AA
Alaska	Aa2	AA	AA
Arizona	NGO	AA	NR
Arkansas	Aa2	AA	NR
California	A3	AA	A-
Colorado	NGO	NR	NR
Connecticut	Aa3	AA	AA
Delaware	Aaa	AAA	AAA
Florida	Aa2	AA+	AA
Georgia	Aaa	AAA	AAA
Hawaii	Aa3	AA-	AA-
Idaho	Aa3	NR	NR
Illinois	Aa3	AA	AA
Indiana	Aa1	AA	NR
Iowa	Aa1	AA+	AA
Kansas	Aa1	AA+	NR
Kentucky	Aa2	AA-	NR
Louisiana	A1	A+	A+
Maine	Aa2	AA	AA+
Maryland	Aaa	AAA	AAA
Massachusetts	Aa2	AA-	AA-
Michigan	Aa1	AA+	AA+
Minnesota	Aa1	AAA	AAA
Mississippi	Aa3	AA	AA
Missouri	Aaa	AAA	AAA
Montana	Aa3	AA-	NR
Nebraska	NGO	NR	NR
Nevada	Aa2	AA	AA+
New Hampshire	Aa2	AA	AA
New Jersey	Aa3	AA-	AA-
New Mexico	Aa1	AA+	NR
New York	A1	AA	AA-
North Carolina	Aa1	AAA	AAA
North Dakota	Aa3	AA-	NR
Ohio	Aa1	AA+	AA+
Oklahoma	Aa3	AA	AA
Oregon	Aa3	AA-	A+
Pennsylvania	Aa2	AA	AA
Rhode Island	**Aa3**	**AA-**	**AA**
South Carolina	Aaa	AAA	AAA
South Dakota	NGO	NR	NR
Tennessee	Aa2	AA	AA
Texas	Aa1	AA	AA+
Utah	Aaa	AAA	AAA
Vermont	Aa1	AA+	AA+
Virginia	Aaa	AAA	AAA
Washington	Aa1	AA	AA
West Virginia	Aa3	AA-	AA-
Wisconsin	Aa3	AA-	AA-
Wyoming	NGO	AA	NR
Rhode Island rating compared to other states:			
Above Rhode Island	28	35	15
Same as Rhode Island	13	9	12
Below Rhode Island	3	1	9
NGO or NR	5	4	13

Sources: Moody's Investors Service Global Credit Research - August 5, 2004.
Standard & Poor's Publication dated August 3, 2004.
Fitch Public Finance dated August 9, 2004.

Tax Supported Debt

Tables 4-2, 4-3, and 4-4 present the history for the key debt ratios for Rhode Island and the median level for all states as determined periodically by Moody's Investors Service. The peer states of Delaware, Connecticut, Massachusetts, Maine, New Hampshire, and Vermont were selected due to geographical proximity (the New England states), population (Delaware, Vermont, New Hampshire, Maine), age of infrastructure (all), and concentration of services at the state level (Delaware).

Table 4-2
Comparison to Peer States
Net Tax Supported Debt to Personal Income

Year	RI	RI National Rank	Moody's Median	Peer State Ave	DE	CT	MA	ME	NH	VT
1994	8.9%	3rd	2.1%	5.9%	8.0%	9.1%	8.2%	2.6%	2.9%	4.5%
1995	8.7%	3rd	2.1%	6.1%	8.0%	9.6%	8.4%	2.7%	2.9%	4.7%
1996	8.5%	3rd	2.1%	6.0%	7.6%	9.7%	8.3%	2.7%	2.9%	4.9%
1997	8.7%	3rd	2.1%	5.6%	6.4%	9.4%	8.1%	2.6%	2.5%	4.7%
1998	6.6%	4th	1.9%	5.2%	5.9%	8.7%	7.8%	1.9%	2.4%	4.2%
1999	6.5%	5th	2.0%	5.1%	5.7%	8.7%	7.8%	1.9%	2.3%	4.2%
2000	6.2%	5th	2.2%	4.9%	5.2%	8.1%	8.0%	2.1%	2.0%	3.8%
2001	5.3%	7th	2.1%	4.8%	5.5%	8.0%	8.5%	2.0%	1.5%	3.3%
2002	5.2%	7th	2.3%	4.7%	5.3%	8.0%	8.5%	1.9%	1.5%	3.0%
2003	5.0%	7th	2.2%	4.7%	5.0%	8.2%	8.5%	1.8%	1.4%	3.0%
2004	4.4%	12th	2.4%	4.7%	5.6%	8.4%	8.5%	1.8%	1.5%	2.5%

Source: Moody's Investors Service
Global Credit Research
April 2004 Special Comment

Note: Due to slight variations in calculation methods used by Moody's and those used to prepare Table 3-3, Rhode Island's debt ratios in this table are different than the same ratios which are presented in Table 3-3.

The Tax Supported Debt to personal income ratio measures the State's debt paid from general taxes and revenues in comparison to personal income which is considered to be a good measure of the State's aggregate wealth. While Rhode Island's rank has consistently improved from the 3rd highest ranking in the country to the 12th highest at 4.4%, (this ranking has improved due to Tobacco Securitization), it remains well above Moody's median of 2.4%, but below the peer group average of 4.7%. This indicates that Rhode Island's Tax Supported Debt is a greater burden on the State's economy than is typical of most states. Personal income represents the wealth of the State which is taxed to support Tax Supported Debt or could be taxed to support State Credit Supported Revenue Debt.

Table 4-3
Comparison to Peer States
Net Tax Supported Debt per Capita

Year	RI	RI National Rank	Moody's Median	Peer State Ave	DE	CT	MA	ME	NH	VT
1994	$ 1,700	4th	$ 391	$ 1,293	$ 1,563	$ 2,341	$ 1,966	$ 478	$ 584	$ 825
1995	$ 1,779	4th	$ 399	$ 1,355	$ 1,748	$ 2,483	$ 1,947	$ 469	$ 639	$ 846
1996	$ 1,846	4th	$ 409	$ 1,421	$ 1,728	$ 2,682	$ 2,053	$ 512	$ 637	$ 914
1997	$ 1,889	4th	$ 431	$ 1,472	$ 1,715	$ 2,813	$ 2,117	$ 523	$ 681	$ 984
1998	$ 1,618	6th	$ 446	$ 1,480	$ 1,619	$ 2,962	$ 2,329	$ 391	$ 633	$ 946
1999	$ 1,670	5th	$ 505	$ 1,523	$ 1,581	$ 3,131	$ 2,436	$ 418	$ 620	$ 953
2000	$ 1,661	6th	$ 540	$ 1,531	$ 1,544	$ 3,052	$ 2,612	$ 488	$ 567	$ 925
2001	$ 1,497	7th	$ 541	$ 1,565	$ 1,616	$ 3,037	$ 2,957	$ 487	$ 463	$ 828
2002	$ 1,552	7th	$ 573	$ 1,660	$ 1,650	$ 3,240	$ 3,267	$ 485	$ 503	$ 813
2003	$ 1,508	7th	$ 606	$ 1,692	$ 1,599	$ 3,440	$ 3,298	$ 471	$ 485	$ 861
2004	$ 1,385	9th	$ 701	$ 1,734	$ 1,800	$ 3,558	$ 3,333	$ 492	$ 496	$ 724
Source:	Moody's Investors Service									
	Global Credit Research									
	April 2004 Special Comment									

Note: Due to slight variations in calculation methods used by Moody's and those used to prepare Table 3-3, Rhode Island's debt ratios in this table are different than the same ratios which are presented in Table 3-3.

The ratio of Tax Supported Debt to population fails to consider the economic wealth that supports the debt or the portion of the State's budget used to pay debt service. This ratio, however, supports the fact that, with the exception of Maine and New Hampshire, each of the peer states has levels of debt per capita above the national median. This may be due to the combined factors of age of infrastructure, low population, and the dependency on the state to shoulder greater financing responsibilities. This ratio improved for the State, which is a significant achievement contrary to the national median and Peer Group trends.

Table 4-4
Net Tax Supported Debt Service as a Percent of General Revenues

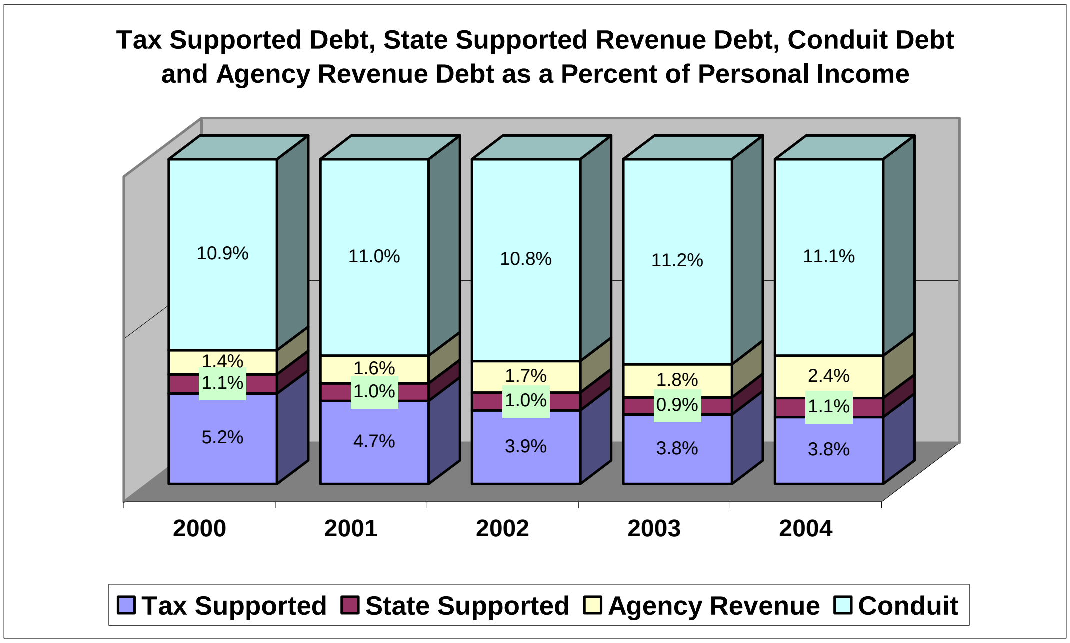
Year	RI
2000	6.6%
2001	6.2%
2002	6.3%
2003	4.3%
2004	4.7%

Source: FY 01 - FY 05 Capital Budgets.

Tax-Supported Debt Service to General Revenues is used for internal trend analysis, but no longer for peer group comparison analysis since the rating agencies no longer publish this data.

As Tables 4-2 and 4-3 show, Rhode Island has moderately high levels of Tax Supported Debt according to these ratio measures. High debt levels can lead to lower credit ratings, which result in higher borrowing costs, and a diminished financial capacity to respond to needed infrastructure improvements to support economic development.

As shown in the chart below, the total amount of Rhode Island's Tax Supported Debt, State Supported Revenue Debt, Agency Revenue Debt, and Conduit Debt and its relationship to State personal income has declined from 18.6% of Personal Income in FY00 to 18.4% in FY04. This decline has come about primarily as the DEPCO debt was prepaid and as Personal Income grew at the compound annual growth rate of 3.4%.



Section 5

Recommended Priorities for 2005

Based on the findings of this and the preceding Debt Management Reports, the following debt management priorities are recommended for 2005:

1. Continued Emphasis on Debt Reduction

Rhode Island's improved debt position is the product of stringent policies and fiscal discipline adopted after the State's debt peaked in the early '90s. The policies included greater scrutiny of debt issues, the development of debt level benchmarks and refinement of the capital budgeting process. Rhode Island has lived up to its commitment to reduce its debt burden and is now realizing the benefits of this consistent discipline. Continued vigilance is required. Rhode Island's current debt ratings are based on the expectation that the State will continue this debt management course. For example, the significant portion of the proceeds from Rhode Island's tobacco securitization devoted to debt reduction, won favorable reaction from the rating agencies.

The credit guidelines and more conservative debt ratios targets approved by the PFMB in June 2000 provide the structure necessary to achieve further debt reduction while not overly constricting state debt. It is also appropriate, going forward, to look broadly at the debt approval process of the State and quasi-public agencies for opportunities to improve the review process and to strengthen controls.

The coming implementation of GASB Statement 45 regarding Other Post Employment Benefits ("OPEB") may have an impact upon the definition of debt burden by the municipal market place. It is recommended that the PFMB review the impact of OPEB on the State's debt burden relative to other states.

2. More Pay-as-You-Go Funding

The Governor's proposed Capital Improvement Plan for FY 2006 – FY 2010 reflects the eighth year in a comprehensive, yet affordable asset protection program that will result in the dedication of over $260.0 million of current revenues towards preserving Rhode Island's buildings and other assets over the next five years. The multi-year plan of dedicating increased resources towards pay-as-you-go capital projects was modified in past fiscal years to address operating budget deficits and resulted in numerous planned capital projects being deferred. The Governor's FY 2006 recommended budget funds some of these deferred projects, but defers many until resources are more abundant. Adoption of a responsible asset protection program will help reduce Rhode Island's debt burden in the future when allocated funds are available to fund not only asset protection projects, but also new construction. The ultimate success of the PFMB's pay-as-you-go initiative going forward will be dependent upon the balance between the State's long-term and realistic capital funding sources with a prudent, responsible and long-term comprehensive expenditure plan.

3. Coordination with Sinking Fund Commission

The PFMB and the Sinking Fund Commission have a shared mission of fostering debt reduction. Coordination between the two groups through Treasury staff will optimize debt reduction or avoidance opportunities. PFMB policies and recommendations can provide guidance to the Sinking Fund Commission. Execution of the

Sinking Fund Commission's mission is an integral component of just one of the PFMB's assignments – to maintain

affordable levels of debt. Sinking fund revenues for the past two fiscal years have been diverted to the General Fund, delaying additional debt reduction opportunities. Reactivation of the Sinking Fund is recommended when resources permit.

4. Continued Diligence in Reporting

The PFMB's reporting responsibilities also should continue to include the review of local government debt every two years based on the expected timing of available information. The PFMB should also report on special projects as warranted. One such project under consideration is an improved and integrated debt management system.

5. Sponsor Educational Programs for Municipalities

The PFMB can provide a much-needed service in offering continuing education on topical issues to municipal officers. Initiatives in this area have continued. Staff from the Office of General Treasurer worked with municipal finance officers and the Rhode Island Public Expenditure Council ("RIPEC") to develop a "Municipal Fiscal Healthcheck" to provide uniform data on the fiscal practices, policies, and status of all municipalities. RIPEC's Municipal Fiscal Healthcheck was published in April, 2003. The Office of the General Treasurer also supports the efforts of the Rhode Island Government Finance Officers Association ("RIGFOA") and has been involved in reviewing legislation to improve local borrowing practices, making presentations at RIGFOA meetings and the development of programs for RIGFOA members. In 2004 topics included the State Retirement System and Cash Management. In the coming year, it is recommended that Other Post Employment Benefits be the subject of at least one Educational Program for municipalities.

6. Explore Alternative Funding Mechanisms for Major Infrastructure Projects

The State's Capital Budget and Transportation Improvement Plan ("TIP") projects significant increases in capital spending for major infrastructure projects such as the relocation of Route I-195. Revenues from the gasoline tax provides support for Transportation projects and the State General Fund. Dedication of additional portions of the gasoline tax to Transportation – when resources permit more of that revenue source to be redirected from the General Fund – will foster the stated PFMB and State goals of reducing or moderating Rhode Island's reliance on tax-supported debt for such projects. The PFMB should also monitor the work of Treasury staff and the State Administration to explore innovative funding mechanisms for major infrastructure projects. Treasury staff did review the Garvee and Motor Fuel tax structure as part of the November 2003 issuance.

7. Development of Swaps Policy

As noted in Section 1, the R.I. General Assembly approved legislation proposed by the Treasurer's office to permit the State to enter into interest rate swap agreements with the goal of reducing borrowing costs. This effectively permits the State to convert a fixed rate obligation to a variable rate obligation or vice-versa. The

State can only enter into such transactions when there are demonstrated savings. It is recommended that the Treasurer's office work with the Budget office to formalize this policy and review it on an annual basis. In subsequent years, it may be necessary to update the authorizing legislation.

EXHIBIT A

Schedule of Tax Supported Debt

EXHIBIT B

Public Finance Management Board Statute

EXHIBIT C

Public Finance Management Board Rules

EXHIBIT D

Recent Credit Rating Reports